

ORIGINAL



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MEMORANDUM

TO: Docket Control Center

FROM: *for* Thomas M. Broderick
Director
Utilities Division

DATE: November 16, 2015

RE: STAFF REPORT FOR MANAGMENT SYSTEMS, LLC, DBA JAKES CORNER
WATER SYSTEM'S EMERGENCY RATE APPLICATION (DOCKET NO. W-
20935A-15-0338)

Attached is the Staff Report for Management Systems, LLC, dba Jakes Corner Water System's ("Jakes Corner" or "Company") Emergency Rate Application. Staff recommends approval of Staff's alternative emergency rate increase.

Any interested party wishing to file comments regarding the attached Staff Report may file those comments with the Arizona Corporation Commission's Docket Control no later than November 30, 2015.

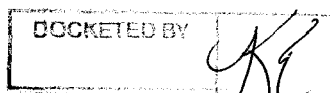
TMB: MJR: nr/BH

Originator: Mary J. Rimback

Arizona Corporation Commission

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Service List for: Management Systems, LLC, dba Jakes Corner Water System
Docket No. W-20935A-15-0338

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**


**MANAGEMENT SYSTEMS, LLC, DBA JAKES CORNER WATER SYSTEM
DOCKET NO. W-20935A-15-0338**

**APPLICATION FOR AN
EMERGENCY RATE INCREASE**


NOVEMBER 16, 2015

STAFF ACKNOWLEDGMENT

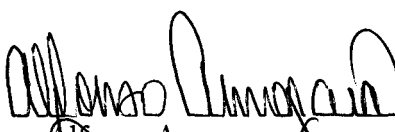
The Staff Report for Management Systems, LLC, dba Jakes Corner Water System ("Company"), Docket No. W-20935A-15-0338 was the responsibility of the Staff members listed below. Mary J. Rimback was responsible for the review and analysis of the Company's application, recommended revenue requirements, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Commission's records on the Company and reviewing customer complaints filed with the Commission.



Mary J. Rimback
Public Utilities Analyst



Katrin Stukov
Utilities Engineer



Alfonso Amezcua
Public Utilities Consumer Analyst II

EXECUTIVE SUMMARY
MANAGEMENT SYSTEMS, LLC, DBA JAKES CORNER WATER SYSTEM
DOCKET NO. W-20935A-15-0338

Management Systems, LLC, dba Jakes Corner Water System ("Company") is located approximately 18 miles south of Payson and three miles southwest of Highway 188 in Gila County, Arizona. The Company provides water utility services to approximately 20 residential customers.

The Company is requesting an emergency rate increase in the amount of \$37,000¹, or a 1,252 percent increase over the Company represented 2014 revenue of \$2,956². Staff recommends an emergency rate increase in the amount of \$3,896, or an 82.1 percent increase over Staff adjusted 2014 revenues of \$4,746.³

Staff Recommendations:

Staff recommends approval of an emergency interim rate surcharge of \$16.23 per connection, per month.

Staff further recommends that the rates approved in this case will be interim until permanent rates are established in the next rate case filing.

Staff further recommends that no change to commodity charges, miscellaneous service charges, and service and meter installation charges be approved.

Staff recommends that proof of property taxes paid be submitted semi-annually until the obligation is paid in full. The Company is six years delinquent and Staff has included funding in emergency rates to pay these past due taxes.

Staff further recommends that the Company be ordered to obtain a bond or an Irrevocable Standby Letter of Credit in the amount of \$10.00.

Staff further recommends that the Company be ordered to file a full rate case application no later than 24 months after the effective date of the interim emergency rates, using the most recent test year.

Staff further recommends that the Company maintain records as required for a permanent rate application. Including details of water usage, copies of all invoices and other cost documentation supporting the rates requested.

¹ Page 4 of Emergency Rate Application.

² Page 16 of Emergency rate Application.

³ Staff requested details of 2014 revenues and expenses as discussed in the "Staff Review" section of this report.

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INTRODUCTION

On September 28, 2015, Management Systems, LLC, dba Jakes Corner Water System ("Jakes Corner" or "Company") filed an application for an emergency rate increase with the Arizona Corporation Commission ("Commission"). On October 15, 2015, a Procedural Conference was held. At the conference a date of November 16, 2015, was set as the docket date for a Staff Report on the application and December 7, 2015, as the date for the hearing on the application. The Company representative has also applied for emergency rates for Arroyo Water Company. Both Jakes Corner and Arroyo Water Company emergency rate applications were included in the conference on October 15, 2015.

The Company stated in its application that the Company is insolvent and that the system has immediate emergencies. On page 8 of the application, the Company provided a list of system repairs necessary to alleviate the emergency condition and on the same page, the Company stated that no estimate of costs is available at this time.

On page 9 of the application, the Company included an annual report for the system for the year ending December 31, 2014. The Annual report represented that for the twelve months of 2014 it received revenues of \$2,956, paid expenses of \$5,490 for an operating loss of \$2,014⁴. The Company requested an emergency amount of \$37,000 on page 4 and page 7 of the application. The \$37,000 increase is a 1,252 percent increase over the Company represented 2014 revenue of \$2,956.

BACKGROUND

Jakes Corner is an Arizona Class E utility engaged in the business of providing potable water service to approximately 20 customers in an area located near the community known as Jakes Corner, approximately 18 miles outside of Payson, in Gila County, Arizona. The Company representative Michael Armstead stated in a procedural conference on October 15, that Management Systems, LLC, dba Jakes Corner Water System purchased Jake's Corner Water System on July 1, 2015. On July 10, 2015, an application to transfer the Certificate of Convenience and Necessity ("CC&N") from Kacy J. Parker dba Jake's Corner Water Systems to Management Systems, LLC dba Jakes Corner Water System was docketed with the Commission (Docket No. W-20935A-15-0260 and W-04249A-15-0260). No decision on the transfer of CC&N has been issued at the time of issuance of this Staff Report.

ENGINEERING ANALYSIS

The Staff Engineering Memorandum is attached to this report. In the Memorandum, Staff discusses the lack of reliable data for the system. Staff notes that the Company does not have an approved Backflow Prevention Tariff.

⁴ The Company Schedules were not mathematically correct.

CONSUMER SERVICES

The Corporations Division of the Commission indicates that Jakes Corner is currently in good standing.

A review of the Consumer Services section records for the period of January 1, 2012 through October 7, 2015, reflects no complaints or opinions.

COMPLIANCE

Jakes Corner has no outstanding compliance issues pending.

CONDITIONS NECESSARY FOR EMERGENCY RATE RELIEF

General conditions necessary for interim emergency rates⁵ include:

1. A sudden change that causes hardship to a company.
2. A company is insolvent.
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

STAFF REVIEW

The Company's application, on pages 4 and 7, is requesting emergency rates of an additional \$37,000. On page 8 of the application there is a listing of plant items needing repair or replacement. No specific costs are attached to the list of items. The items on the list are long lived plant items. Staff concludes that this level of increase is to provide for the cost of long-lived additions or replacements to plant, rather than on-going operational needs of the Company for the capital plant addition portion of this application. Due to the long-term nature of this investment, Staff believes this would more appropriately be financed over a longer period than one or two years.

Staff does not consider the requested emergency increase of \$37,000 in the emergency rates as:

- 1) An increase of the magnitude proposed by the Company would increase the monthly bill per customer per month by \$154.00 ($\$37,000/12 = \$3,083$; $\$3,084/20 = \154).
- 2) The cost of funding the long-lived assets that are included within the Company's request are appropriately spread over many years, through a financing application.

⁵ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt. Those criteria have been affirmed in *Scates v. Arizona Corporation Commission*, 118 Ariz. 531 (CT. App. 1978) and in *Residential Utility Consumer Office v. Arizona Corporation Commission*, 199 Ariz. 588 (2001).

Staff did consider that the Company may be operationally insolvent: the last rates were set in September of 1994, plus the Company enclosed copies of delinquent property taxes back to 2009 in the application for transfer of the CC&N. The Company application provided little information as to the revenues and expenses to be included in the emergency rates.

The Annual reports provided with the application are signed by Kacy J. Parker. Kacy J. Parker is the previous owner of the Company. No annual reports since 2007 have been filed by the Company. Staff requested information as to the presentation of the annual reports included with the application. On October 22, 2015, Staff was provided a print-out showing details of the 2014 transactions (the "Detailed Report") for Jakes Corner. The print out was titled "Profit & Loss Detail January through December 2014". Details included the dates and names of the transactions.

The Company's 2014 annual report shows revenues of \$2,955.79; the Detailed Report showed revenues of \$4,855.81⁶. The annual report shows expenses of \$5,490.06; the Detailed Report shows expenses of \$1,900.02. The annual report shows an operating loss of \$2,014.23; the detailed report shows a net income of \$2,955.79. The 2014 annual report calculations are not mathematically correct.

Staff concludes the Detailed Report is a more reliable indicator of the Company's operational needs. While there is considerable difference in the amounts shown in the application versus the amounts on the Detail Report of transactions, Staff notes that a number of usual expenses were not included in the expense details. Only four categories of expense were shown in the details:

Contract Labor	\$ 10.00
Deposits paid out	\$ 40.73
Utilities	\$ 429.29
Water Testing	\$1,425.00
Subtotal	\$1,900.02

Staff concludes that the Company does need emergency rate relief to provide for on-going operating expenses, but believes the Company's request includes capital plant items, better addressed in a financing application. This allows the cost of long-lived assets to be spread over the life of the assets.

Scant information was provided to Staff as to the historical operational expenses of the Company. Staff determined estimates for known on-going categories of expenses as follows:

Purchased Power	\$500
Repairs and Maintenance	\$1,000
Office Supplies and Expense	\$240
Outside Services	\$3,000

⁶ Staff notes sales taxes of \$112, is included in revenues, Staff removed sales taxes from both revenues and expenses.

Water Testing	\$1,000
Rents & Telephone	\$1,200
One-half of past due property taxes	\$538
Property Taxes	\$162
Subtotal	\$7,640
Additional cash flow	\$1,000
Total Expenses	\$8,640
Less Current Revenues	(\$4,744)
Additional Funding	\$3,896

An interim surcharge amount of \$16.23 per customer per month is recommended (\$3,896/240 bills). Staff recommends emergency interim rates that produce sufficient revenue to cover operating and maintenance expense and to manage contingencies. Staff does not recommend tiered rates as proposed by the Company. Tiered rates require water usage data by tiers. Instead, Staff calculated an interim increase in a fixed monthly amount. This allows the Company a predictable cash flow.

Normal emergency rate case procedures require that the Company provide a bond sufficient to cover a refund of the interim rates approved in this case. If it is later determined that the emergency rate increase was not necessary or only partially necessary, the bond will facilitate the refunding of the interim rates to ratepayers. Staff does not believe the entire amount of the emergency rate increase needs be covered by a bond. Staff recommends that a bond or an Irrevocable Standby Letter of Credit be required in the amount of \$10.00.

Normal emergency rate case procedures require that the Company be ordered to file a full rate case application within a reasonable period after interim rates are awarded in the case. Staff's recommendation is that the Company be ordered to file a full rate case application no later than 24 months after the effective date of the emergency interim rates, using the most recent test year.

There are a number of unknowns with this Company, namely, the length of time for the CC&N Transfer decision, the effective date of the emergency interim rates, and the next mandated rate application.

If the Company determines that debt with a term over twelve months is required, the Company will be required to file a financing application. Any financing application for this Company will require a full rate application along with the financing application.

RATE DESIGN

Rate design is critical to the Company's ability to collect revenues to cover operational expenses. The design of rates normally would include a historical bill count, which calculates water usage at various tiers of water usage. Bill counts are not required in filing an interim emergency rate application. On pages 4 and 5 of the Company's Emergency rate application proposed an inverted

three tiered commodity rates, however without bill counts showing the tiered amounts of water usage, there is no predictability to the revenue generated by the Company's rate design.

Staff recommends that the emergency rates be generated from an emergency interim surcharge until the Company is able to file for permanent rates. Staff recommends that all other present tariffs remain as currently tariff approved.

STAFF RECOMMENDATIONS

Staff recommends approval of an emergency interim rate surcharge of \$16.23 per connection, per month.

Staff further recommends that the rates approved in this case will be interim until permanent rates are established in the next rate case filing.

Staff further recommends that no change to commodity charges, miscellaneous service charges, and service and meter installation charges be approved as shown on MJR-1.

Staff recommends that proof of property taxes paid be submitted semi-annually until the obligation is paid in full. The Company is six years delinquent and Staff has included funding in emergency rates to pay these past due taxes.

Staff further recommends that the Company be ordered to obtain a bond or an Irrevocable Standby Letter of Credit in the amount of \$10.00.


Staff further recommends that the Company be ordered to file a full rate case application no later than 24 months after the effective date of the interim emergency rates, using the most recent test year.

Staff further recommends that the Company maintain records as required for a permanent rate application. Including details of water usage, copies of all invoices and other cost documentation supporting the rates requested.

MEMORANDUM

DATE: October 26, 2015

TO: Mary Rimback
Public Utilities Analyst

FROM: Katrin Stukov 
Utilities Engineer

RE: Jakes Corner Water Company emergency rate increase application
Docket No. W-20935A-15-0338

Introduction

On September 28, 2015, Jakes Corner Water Company ("Company" or "Jakes Corner") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for approval of an emergency rate increase.

The Company is providing service to approximately 20 customers in an area located near the community known as Jakes Corner, south of Payson in Gila County.

Water System¹

Operation

The Company's water system includes one well with an estimated pump yield of 22-28 gallons per minute ("GPM"), one 30 gallon bladder tank, one 5,000 gallon pressure tank and a distribution system. There is no well production meter.

Capacity

Since there is no well production meter, the actual well production is unknown and the system's capacity cannot be determined. Staff recommends that the Company install a master meter so water loss can be calculated. Staff's estimated cost for the purchase and installation of a new two inch master meter is \$2,000. Based on the Company's 2014 water use data, the Company reported the peak use month as August with 163,917 gallons sold. Using the water use data, Staff estimates that with one well, operating at previous reported level, the well capacity of 22 GPM could adequately serve the present customer base and a reasonable level of growth. However, the system lacks adequate storage capacity to serve the existing customer base. Based on the Company's 2014 water use data and the capacity analyses, a minimum of 5,000 gallons of storage is required on this system (with a single source) to meet seasonal peak demand.

¹ Per Company's responses to Staff's Insufficiency letter in Docket No.W-20935A-15-0260

Arizona Department of Environmental Quality ("ADEQ") Compliance

According to an ADEQ compliance status report, dated July 22, 2015, the Company has unresolved ongoing arsenic exceedances, monitoring and reporting deficiencies. Based upon these deficiencies, ADEQ cannot determine if the Company system is currently delivering water that meets water quality standards required by 40 C.F.R. 14 (National Primary Drinking Water Regulations) and Arizona Administrative Code, Title 18, Chapter 4.

Arizona Department of Water Resources ("ADWR") Compliance

The Company's water system is not located in an ADWR Active Management Area. According to an ADWR compliance status report dated July 23, 2015, ADWR has determined that the Company's water system is not in compliance with ADWR requirements, as the Company failed to file its Annual reports and the System Water Plan.

ACC Compliance

On August 26, 2015, the Utilities Division Compliance Section noted that a check of the compliance database indicates that there are currently no delinquent compliance items for the Company.

Curtailment Tariff

The Company has an approved Curtailment Tariff.

Backflow Prevention Tariff

The Company does not have an approved Backflow Prevention Tariff.

Recommendations

1. Staff recommends that the Company file with Docket Control within 90 days of the effective date of an order in this proceeding, as a compliance item in this docket, documentation demonstrating that a master meter has been installed at the wellhead.